in which partial reports of the causes for the disputes were obtainable, 42 involved demands for increased wages and 27 for decreased hours; 24 involved a number of miscellaneous demands (principally for the closed shop or recognition of the union); only 2 were avowedly for the purpose of preventing a lengthening of hours, and only one of preventing the lowering of wages. One instance of the actual lowering of wages, however, was noted in the press comments, but not in connection with labor disputes. A rather frequent comment was that operations in various plants had been curtailed on account of the scarcity of contracts.

WASHINGTON NOTES

A PRICE-FIXING EXPERIMENT

One incident in the process of reconstruction and adjustment to a peace basis has been the attempt on the part of the Federal Government to carry out a new plan of price fixing. On March 18 it was announced that an "Industrial Board" has been formed in the Department of Commerce for the purpose of consulting with industrial interests and bringing about a "stabilized" level of prices such as would probably stimulate business by assuring the consumer that he would be able to purchase at rates which were not likely to be undercut during his process of manufacturing and distributing the goods. This Board first undertook to bring about an agreement on the subject of steel products and succeeded in obtaining an agreement among steel manufacturers designed to carry into effect the schedule of prices which had thus been determined. The outcome was the tentative establishment of a market level of prices for steel products. This action was followed by similar undertakings in connection with coal, cement, and various others. Difficulty has been encountered during the early days of April in the refusal of various departments of the government to accept the level of prices thus agreed upon and to be guided by it in buying the products which they needed. As a result of this difference of opinion within the administration the producers have in various cases declined to adhere to a fixed schedule of prices on the ground that if the government, which is in many lines still the largest buyer, was unwilling to adhere to the arrangements so made it could not be expected that individual purchasers would do so. Consequently the whole subject has been taken up for reconsideration by the administration with a view to determining upon a uniform policy to be pursued for the future.

The price-fixing question is of great importance from the general economic standpoint as well as from the point of view of immediate policy. On the legal side, it involves the question whether the Sherman Anti-Trust law and the whole range of ideas which have become familiar during the anti-trust discussion are to be surrendered or adhered to. The position has naturally been taken by many observers that if price fixing is a good thing for a transition period like the present, and if it results in rendering business more stable and regular, it must also be considered a good thing for steady application in ordinary times. Certainly the precedent of price agreement under government supervision is likely to prove important in the future. From another standpoint it is clear that the idea of price fixing at a relatively high level raises a large question as to the best method of getting back to stable industrial conditions. In the past we have always taken it for granted that competition would result in bringing about the conditions which were best for the consumer, but the theories upon which the administration price-fixers have been proceeding imply a different view of the case. They are based upon the idea that, with stable prices assured, plants will be able to buy steadily and freely, since they will be assured of protection against variations in cost of production. This attitude ignores the fact that demand is in no small degree dependent upon price and that in order to keep plants at work and labor fully employed the maintenance of a large volume of output is necessary. Thus the alternative is presented of a stable and rather high price with protected production on a smaller scale as against broader production on a larger scale with fluctuation of prices, the producer or business man being expected to take the risk involved in the operation in return for the larger profits reasonably to be expected from the industry.

FINANCING THE RAILROADS

When Congress adjourned on March 4, without making provision for the support of the railroads through the appropriations that were called for in that connection, it left open a large question of railroad financing which must be disposed of as soon as practicable if the railroads are to continue their purchases of supplies and are to maintain the demand for commodities which they have been making. Two methods of carrying out this financing have been presented and discussed during the past month. One of these was the plan of requesting sellers of equipment, supplies, materials, and the like, to draw drafts upon the railroad administration, such drafts to be accepted by the latter. It speedily appeared that the success of this method of finan-

cing would be dependent upon the degree in which the paper thus made was marketable, and that such marketability would be largely dependent in turn upon the question whether the drafts thus created would be eligible for discount with Federal Reserve banks. The matter was submitted to the Federal Reserve Board, which published a ruling to the effect that such drafts were, unquestionably, "trade acceptances," and as such technically eligible for discount in the way suggested. Further consideration led to a recognition of the fact, previously made plain by the Board in earlier utterances, that there is a distinct difference between paper which is eligible and paper which is desirable for discount or rediscount. The consequence has been a resort to the second method of financing which was originally contemplated or suggested.

This method was that of direct loans to be made by the War Finance Corporation to the Railroad Administration. The War Finance Corporation had, just after the adjournment of Congress, an available lending power of possibly $350,000,000 while the needs of the Railroad Administration were likely to run to $750,000,000. Recognizing the possibility of heavy demands the War Finance Corporation, in order to provide itself with the necessary means, announced on April 1 a sale of $200,000,000 of 5 per cent bonds, this issue being subscribed in large measure during the first days of the sale. The bonds thus brought into existence are of much more than ordinary significance because of the fact that they represent a kind of security which can be used as collateral for direct loans at Federal Reserve banks. They thus present in a certain sense the same kind of problem which was suggested by the first method of financing. In the War Finance Corporation act, however, it is provided that paper secured by such bonds as collateral can be rediscounted by reserve banks only at a rate 1 per cent higher than the rate made by such banks on paper of similar maturity.

The essential difference therefore between the trade acceptance given in payment of railroad supplies and a bond whose proceeds have been used for the same purposes is that a higher rate of discount is necessarily to be fixed upon paper secured by the latter; while on the other hand, it may be supposed that the distribution of the paper will be somewhat different in the one case from what it would be in the other. In either case, there is a danger that the result of the financing will be to create an additional burden for the banks to carry. It should be remembered, however, that had Congress made the appropriations needed the money would have been supplied through sales of bonds which themselves would have been eligible as security for discounted and rediscounted paper. The question at issue is which form of advance

is most likely to bring about absorption of the issues by the permanent investor, and which is most likely to place upon the commercial banks of the country the greatest burden in the current discounts.

SUSPENSION OF EXCHANGE "PEGGING"

The announcement of the British government through its fiscal agent at New York on March 19 that no more purchases of exchange would be made for government account, followed by the announcement on the next day by the Federal Reserve Board that all restrictions upon dealings in Italian lire had been removed, marks the end of an epoch in war finance. For more than two years sterling exchange had been supported by government action at the artificial price of $4.76. Immediately after the withdrawal of support from sterling, the quotation declined, eventually reaching $4.58. This fall was succeeded by recovery to $4.67. Lire, which had been stabilized 6.37 lire to the dollar, likewise declined to below 7 lire with unconfirmed reports of quotations below 8 lire. Little power of recovery has been shown by lire since the announcement. These changes were accompanied by corresponding changes in the quotations of other foreign currency. The significance of the situation does not, however, lie in the immediate fluctuations of exchange, but in the fact that this action is the first important step toward normal conditions in international business and finance.

The British government is attempting to bring about a stronger exchange position by restricting importations of merchandise into Great Britain, while, since the withdrawal of government support for exchange, it has confirmed the unofficial gold embargo previously existing. The lowered value of foreign currency in the United States should, according to classical theory, result in limitation of foreign purchases in this country; but it remains to be seen how far such restriction will take place in view of the tremendously heavy requirements of foreign countries. The real crux of the situation seems to lie in the question how far such foreign countries can obtain accommodation in this country, designed to carry the purchases made by foreign consumers upon long term. This in turn becomes a twofold problem—how far American bankers are willing to finance such exports through current credits and how far American investors are willing to aid them by absorbing foreign securities and thus furnishing the capital needed in the form of permanent loans.

During the latter part of the war, the basis for the export movement was furnished by the government of the United States which advanced

about $9,000,000,000 to various foreign governments, this sum representing virtually our (merchandise) balance of trade during the years 1916–18 inclusive. The funds for such advances were furnished by the public through taxation and liberty loans, and the ultimate question now is whether the American public is willing to go on supplying this same kind of support through the voluntary absorption of private securities. This remains to be seen. Meanwhile the question of the free movement of gold between nations has been rendered much more acute than heretofore by reason of the fact that the artificial control of exchange quotations has now been eliminated. Free movement of gold would do much to bring about a restoration of normal international relationships, but it would probably necessitate action on the part of those countries which are least expanded or inflated in extending to other countries the aid needed by the latter in restoring their banking position. This would be supplied through the medium of permanent loans in the form of gold. The whole question is intimately connected with the problem of relative price levels in different countries and their relation to expanded banking credit.

PURCHASE OF FOREIGN SECURITIES

During the months since the conclusion of the armistice, American exports to Europe have continued to maintain a very high record. It is true that they have consisted very largely of foodstuffs and raw materials, and that there has been a decided falling off in the volume of manufactures moving abroad, as had been expected to be the case when the necessary European demand for munitions and war materials was partially suspended. The shipments that have been made however represent a very substantial balance of trade and, taken in conjunction with the fact that during the years preceding the armistice practically our entire favorable merchandise balance ($9,300,000,000) had been carried by government advances, raised the question how this peace balance is to be taken care of. This question has formed the subject of discussion at various meetings of bankers and financiers during the months of March and April, with the almost unanimous conclusion that some method of private financing would be necessary which would provide for the continued exportation of goods to Europe on credit.

While some first steps in this direction have been taken, as exemplified by the Belgian industrial credit of $50,000,000, and while it is known that the machinery is being carefully prepared for the necessary advances on current account, it is also evident that this temporary financing will not cover the requirements of the situation completely,

but that there must be some plan of regular access to the investment funds of the United States upon a basis that will be satisfactory both to the investor in this country and to the foreign buyer of American goods. Out of this has been developed the nucleus of a movement to encourage the absorption of foreign securities by American investors through the formation of investment trusts. In years past comparatively few such securities have been purchased here, our market being in that respect decidedly different from the British financial market. British investors have habitually invested their savings in foreign issues inasmuch as they could not find an outlet for their funds in the home market. On the other hand, American investors have thought it preferable in most cases to purchase the stocks and bonds of domestic undertakings while those issued by European enterprises as such have not appealed to them on account of the relatively low rate they bore. Under the new conditions it will be necessary for Europeans who wish to market securities in the United States to sell them upon a much more liberal basis than they have thought necessary in past years, if they expect to divert savings from the local field in this country to European enterprises. Inasmuch as the Treasury has now practically exhausted the funds allowed it by Congress for the purpose of direct loans to European countries, the choice is now comparatively urgent as between absorption of foreign securities and reduction of the volume of our foreign shipments. This will prove to be particularly true with reference to the Central Powers, whose industrial needs can scarcely be met unless the financial basis for them is provided from foreign sources. The United States is thus apparently entering upon a new period in peace financing.

NEW VICTORY LOAN

Secretary of the Treasury Glass on April 14 announced the terms of sale of the fifth great government loan, to be entitled the Victory Liberty Loan. The loan as finally determined consists of $4,500,000,000 of notes running not more than four years, but redeemable after three years at the pleasure of the Treasury Department. The notes are to bear $4\frac{3}{4}$ per cent interest and are to be exempt from normal income taxation, as was the case with the bonds of the second, third, and fourth Liberty loans. They may, however, at the will of the holder, be converted into notes bearing $3\frac{3}{4}$ per cent and entirely exempt from all forms of taxation, both national, state, and local. It is announced that the rate to be paid on the new notes has been established in such

a way as to avoid embarrassing the holders of the old Liberty bonds in so far as practicable, and at the same time to offer to the public as favorable terms as circumstances would permit for subscriptions to the new issue. An interesting phase of the official announcement is the statement that the amount of the issue has been cut to the sum which it is believed will suffice, with current income tax instalments, to take up and pay off outstanding certificates of indebtedness and to carry matters along upon their present basis.

From this standpoint further issues of bonds or notes or both at later dates, probably not far in the future, will evidently be necessary. It is supposed that these will be sold on an "over-the-counter" basis instead of by general popular subscriptions, for Secretary Glass announces that this will be the last Liberty loan of the series, so that subscribers in taking up the notes will have a right to feel that they will not again be compelled as a patriotic duty to subscribe for further issues. The yield of the new notes is practically the same as that which is being netted by the old bonds at their existing quotations, while the short life of the notes gives comparative assurance of stability at or around par for the brief period during which they will remain outstanding prior to being refunded. The evident possibility of the situation is that these notes with their higher rates of yield will tend somewhat to impair the standing and quotation of the Liberty bonds of the older issues, investors preferring the new notes and ceasing to buy the older bonds, so that the latter may sink even below the present figures in the market. The outstanding amount of certificates of indebtedness now in the hands of the banks is such as will practically absorb the proceeds of the entire issue of new notes and perhaps somewhat exceed it, but as all of these certificates do not fall due at once, the calculations that have been made in the Treasury indicate that the funds steadily flowing into the Department will suffice to meet the maturities as they recur, thus providing for the regular payment of the government's obligations. All this plan of financing necessarily rests upon a delicate basis which may be disturbed as a result of heavy appropriations by Congress, should that body at its approaching session determine to spend money without regard to very rigid requirements of economy. Government expenditures have now been reduced to about $1,300,000,000 per month, a decided falling off from the level which had been reached just after the conclusion of the armistice. Granted due economy and care on the part of Congress, it would however seem that the financing of the near future is being provided for upon about as good a basis as could be arranged.